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SUBJECT: NEW TAJIK BUDGET PRIORITIZES ENERGY

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11. (U) Summary: President Rahmon signed the 2010 "anti-crisis" budget on November 14, three days after it was approved by the Parliament and a month earlier than previous practice. Despite the financial crisis, the new budget is Tajikistan's biggest ever, totaling over 6.5 billion somoni (about \$1.5 billion), 9% higher than the original 2009 budget, and 18% higher than the final version of the 2009 budget that was reduced to deal with the crisis. The new budget increases social sector spending while addressing Tajikistan's perennial energy difficulties by stepping up funding for the Roghun Hydropower Station to 650 million somoni, 117 million more than the previous year. Budget numbers are in the final paragraph. End summary.

Budget Snapshot

12. (U) President Rahmon signed the 2010 "anti-crisis" budget on November 14, three days after it was approved by the Parliament and a month earlier than previous practice. Expenditures in 2010 are calculated at 6.782 billion somoni, while revenue is anticipated at 6.537 billion somoni, leaving a deficit of 245 million somoni, or 1% of expected gross domestic product (GDP). This is an increase over 2009's expected deficit of 0.5% of GDP, but in the overall guidelines set by the International Monetary Fund (IMF). GDP for 2010 is predicted to be 24.5 billion somoni, up from 20.1 billion somoni in 2009. The government expects to fill the budget deficit by loans from multilateral donors (totaling 215 million somoni), proceeds from privatization of state enterprises (15 million somoni), and new treasury bonds (15 million somoni). Debt service is estimated at 162 million somoni, or under 0.7% of GDP, and will be financed with loans from the Asian Development Bank (ADB) and World Bank as well as Finance Ministry deposits in the National Bank.

13. (U) Expenditures in the 2010 budget have increased in all categories except one. Overall social sector spending next year is expected to be 2.75 billion somoni, 16.2% higher than the revised 2009 budget (and 12.7% higher than the original). Government operations and defense have increased by 7.6% over the revised 2009 budget, although they are down 6.7% compared to the original. The biggest increases in 2010, however, have come in economic sector expenditures, which are up 29.2%, or 22.1% compared to the original budget. The only expenditure to register a decline is education, which will drop from 1.11 billion somoni to 1.07 billion somoni. This drop follows an earlier reduction from 1.14 billion somoni in the original 2009 budget.

Social Sector Registers Modest Increases, but Education Falls

¶4. (U) The biggest increase over last year's budget is for social protections, including pensions, slated to receive 1.07 billion somoni in 2010, 348 million somoni more than last year. Social protections comprise 45% of all social sector spending in the 2010 budget. Pensions are estimated at 770 million somoni -- a 15% increase over last year. On average, statutory budget items will receive a 24% increase against the revised 2009 budget with about 82% comprising wages and pensions. Overall spending on social protections increases as a percentage of the overall budget, from 12.6% last year to 15.7% in 2010. Eliminating wage and pension arrears in 2010, however, will be a real challenge in the context of tight fiscal constraints, according to a World Bank expert. The Ministry of Finance envisages nominal wage increases of 15% in the health sector by July 1, 10% in education by September 1, and 10% for public employees in all other sectors by July 1.

¶5. (SBU) Not all of the press about the budget appears to match the figures as released. For example, Minister of Finance Safarali Najmiddinov reported that education expenditures would rise in 2010 by 126 million somoni, but according to official figures they dropped by 42 million somoni (or by 71 million, if one compares to the original 2009 budget). As a share of the overall budget, expenditures in education drop from 19.6% last year to 15.8%, roughly the same level as 2007 and 2008. Relative health expenditures decline somewhat as well, from 6.8% of last year's revised budget to 6.0%. (A World Bank consultant

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has calculated education's overall share of the budget as 17.9% and that of health at 6.5%; it is not clear where these figures come from.) To a certain extent, the reduction in expenditures on health and education reflects the fact that 2009 figures were relatively high, because donors insisted the government maintain social sector spending in its revised budget as a condition for receiving assistance to cope with the financial crisis. While absolute numbers, with the exception of education, have increased in 2010, the reduction in health and education spending as an overall percentage of the budget indicates the government plans to concentrate most anticipated 2010 revenue increases in other areas.

Biggest Increases are in Economic Sphere

¶6. (U) Government economic sector outlays rise more, in both absolute and relative terms, than any other part of the budget. In percentage terms, the biggest increase over last year's revised budget came in the mining, mineral processing, and construction sector, where spending is slated to rise 110%, from 27.5 million somoni to 57.8 million in 2010. The next highest increase is a 62% boost in housing and public utilities. In absolute terms the biggest economic sector increase (and second largest overall increase) comes in the fuel and energy complex, which will receive 1.07 billion somoni this year, 180 million somoni more than 2009.

¶7. (U) Subsidies to regional budgets are expected to equal 1.64 billion somoni. As in previous years, the President's home province of Khatlon receives nearly half of all subventions in the 2010 budget. A number of projects under externally financed investment (PIP), which are projected at 1,124 million somoni,

will affect the broad 7.3% deficit target. According to an advisor at the World Bank, 76% of these investment projects are in the energy sector, including construction of the Roghun hydropower station (650 million somoni), rehabilitation of the 220 kV and 500 kV transmission lines at the Nurek hydropower station (158 million), construction of the new electricity transmission line "Tajikistan-Afghanistan" (172 million), and others. Financing for Roghun increased by 117 million somoni, 22% over nominal previous year expenditures. Figures for Roghun are not included in the published budget and were taken from press reports. The World Bank has reported slightly different number: 612 million somoni, representing an increase of 11%. Their smaller percentage increase appears to have factored in inflation.

Optimistic assumptions on the revenue side

¶8. (U) The 2010 income target of 6.537 billion somoni is optimistic but achievable, according to the World Bank expert. The latest figures show that budget outturn for the first nine months of 2009 was 76% of projected annual income, indicating that revenue models are on track. Tax and non-tax revenue is projected to grow by 14.4% relative to the 2009 amended crisis budget and will reach 4.810 billion somoni. The tax-to-GDP ratio is projected to increase slightly from 17.4% in 2009 to 17.8% in 2010, while the revenue-to-GDP ratio is projected to remain at 19.6%. The share of VAT and income tax in total revenue is estimated at 58% and 14%, respectively -- high by historic standards. The share of revenue generated by local governments is estimated to increase in 2010 from 8.8% to 17.8%.

¶9. (SBU) A number of developments are exempt from taxes. Among these are public sector construction projects such as secondary schools and the National Library, and private sector developments like the Serena Hotel and the Ismoil Somoni Hotel, rumored to be connected to one of the President's daughters. Also exempt from taxes is the President's lavish new "Palace of Nations," which officially cost \$100 million to build, but whose actual cost, Embassy sources say, is closer to \$300 million. Imports of public transportation vehicles, agricultural machinery, gas, and electricity are also tax-free.

¶10. (SBU) According to the 2010 budget law, 20% of any excess revenue from local governments and 30% percent of excess revenue from the republican budget will be transferred to a newly

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created Stabilization Fund intended to serve as a safety cushion throughout the fiscal year. According to a World Bank consultant, roughly 10% of generated revenue normally is transferred to the President's Reserve Fund each year, which is estimated at 96 million somoni in 2010. This information, however, is not included in the budget. The government projects GDP to grow by about 5% next year, inflation to come in at 9%, and the somoni to slide against the dollar, from 4.37 to the dollar to about 5 to the dollar.

¶11. (SBU) Comment: Making a detailed analysis of Tajikistan's budget is difficult because the published version includes only broad categories, and it is clear that not all funds controlled by the government show up in the budget. The President's Reserve Fund is one example; the revenue from the Talco aluminum plant is another. What is clear is that the government is throwing most of its new money into energy. If perhaps optimistic projections for GDP and revenue growth bear out, then it is reasonable to expect the government to make some inroads in Roghun and other projects and still have enough money to fund the social sector. If, however, the crisis continues to depress

revenue, donors will be watching carefully to see where the government reduces its spending. End comment.
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